

Exhibit O

Dollars and Sense

How City of Kalamazoo Spends Your Money

2011 Citizen's Guide to
City of Kalamazoo's Financial Health
Presented by
Kenneth P. Collard, City Manager, ICMA-CM, P.E.

KEY TERMS

- **Budget deficit/surplus.** If there is less money received than paid out in a given fiscal year, there is a budget **deficit** or shortfall. If there is more money received than paid during the fiscal year, a budget **surplus** exists.
- **Debt.** Just like a homeowner takes out a mortgage, governments can borrow money to pay for certain types of projects. The state has both short-term debt (paid back within the fiscal year) and long-term debt. Debt can be either **general obligation** debt, meaning that the state pays back the debt with regular tax collections and other revenues, or **special revenue** debt, which is paid off over time with revenue from specified sources beyond the usual taxes and service fees.
- **Fiscal year (FY).** The 12-month period of time during which budgets are allocated or finances are planned. Most households have a fiscal year that runs from January 1 to December 31 (that's the period for which we pay personal income taxes in April), while state government uses an October 1 - September 30 fiscal year. Some local units of government, including public schools, use a July 1 - June 30 fiscal year, while others operate on a typical calendar year.
- **Fund balance.** Once all the bills for the year have been paid out of a certain fund, whatever is left over is called the fund balance. When a fund balance is less than zero, you'll see the number shown with parentheses around it. Deficits cause fund balances to decrease, while surpluses cause them to increase.
- **Public budget gap.** A novel measure, similar to the deficit, used to measure the extent to which a government is falling short of covering its current and long-term obligations in a fiscal period. The budget gap takes into account the budget deficit, as well as any new obligations that the government has failed to cover such as **employee pensions or retiree health care**.
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.

Table of Contents

<i>Welcome</i>	<i>1</i>
<i>How Governments Use Your Money</i>	<i>2</i>
<i>Where Citizen Dollars Go</i>	<i>2</i>
<i>Services That Governments Provide</i>	<i>2</i>
<i>How Taxpayer Money Is Spent:</i>	
<i>Government Revenues and Expenditures</i>	<i>4</i>
<i>Public Budget Deficits</i>	<i>5</i>
<i>Number of Government Employees</i>	<i>7</i>
<i>Difference in Public and Private Sector Compensation</i>	<i>7</i>
<i>Kalamazoo's Fiscal Health</i>	<i>8</i>
<i>Reserves and Major Fund Balances</i>	<i>8</i>
<i>Debt Levels</i>	<i>9</i>
<i>Pension and Other Retiree Benefits</i>	<i>10</i>
<i>Public Budget Gap</i>	<i>13</i>
<i>How This Report Was Developed</i>	<i>14</i>
<i>Data Sources and Notes</i>	<i>14</i>
<i>Other Sources and Links</i>	<i>14</i>

Welcome

Greetings,

The City of Kalamazoo is proud to present this 2011 Citizen's Guide to the City of Kalamazoo's Financial Health. This report pulls together data sources from the City's budget and audited financial reports, as well as internal and external data sources regarding the community's physical, educational and economic health, as well as its capacity to support the fiscal health of the City and its public service delivery demands.

Under the leadership of our new Governor Rick Snyder, this report has been developed and implemented as a way for citizens to better understand the City's scope of activities, financial obligations, and fiscal health. Citizens have a rightful expectation that the City will do everything it practically can to maintain high-quality public services, while minimizing the requirements for financing these services in the form of taxes and fees on citizens.

Citizens are invited to be aware of the facts surrounding these issues and to make informed judgments about the proper fiscal direction of the City, in the context of prioritizing service delivery. It goes without saying that the proper translation of these issues and the relevant data maximizes the opportunity for citizens to be knowledgeable and engaged, even if engagement comes only by making an effort to be intelligently informed.

This report is also vital in the translation of information and perspective for decision-makers in Lansing. For example, the Governor and the Legislature will soon contemplate the redesign of Statutory Revenue Sharing, which for many years has been a State Budget line item split up among local governments by formula. Governor Snyder will unveil in March his administration's proposed new criteria for distributing these funds. This report will undoubtedly assist his administration and our legislators in understanding the potential impacts of any proposed changes.

It goes without saying that the Citizen's Guide, having been promoted by the Governor's Office, is an ideal tool to communicate our financial and public service priorities effectively to the Governor's Office and to our legislative partners.

I am grateful for the support of City staff and the City Commission in making this report possible.

Sincerely,

Kenneth P. Collard, P.E.-ICMA
City Manager
City of Kalamazoo

WHERE CITIZEN DOLLARS GO

In 2011, the City of Kalamazoo is budgeted to collect \$107 million in revenues to provide services to its residents. Property tax collections would provide \$36 million of these resources, the Federal Government would distribute \$6.6 million in the form of block grants and transportation funds, and the State of Michigan would return \$15.6 million in the form of state revenue sharing, gas & weight taxes, transportation funds and other miscellaneous grants and reimbursements. Licenses, permits and fees are generated to offset most of the cost of building and housing inspections and recreational programming, to cite the most prominent examples. User charges and fees are also collected to provide utility and transportation services.

SERVICES THAT THE CITY OF KALAMAZOO PROVIDES***Police and Fire protection***

The Mission of Kalamazoo Public Safety is to provide a safe community for our citizens. The mission includes the maintenance of order, the promotion of fire prevention and crime prevention programs, the investigations of crimes leading to the apprehension of perpetrators, the recovery of property and the providing of emergency medical services.

Street maintenance and improvements

The Public Services Department provides a variety of street repair and maintenance activities including pothole patching, street resurfacing and construction, repair of hazardous or deteriorated drainage structures, shoulder grading, replacement of curb and gutter and 24 hour Major Street bare pavement response during snow and ice season events, storm sewer repair and maintenance, pavement painting and marking, replacement of street signs, and maintenance of traffic signals.

Parks and Recreation

The vision of the City of Kalamazoo Parks and Recreation is to create a community of neighborhoods where people live, work and play. This is done by being good stewards of the environment, providing dynamic parks, trails, and recreation programs for all citizens, and by promoting youth development initiatives in support of healthy families.

Community Planning

The Planning Division is responsible for the implementation and enforcement of the city's zoning ordinance and administers citywide land use policy. The division has recently completed the master land use document, Plan Kalamazoo, and will work to implement the ideals put forth in the document.

The Division works with the Planning Commission, the Historic District Commission, Historic Preservation Commission, Site Plan Review Committee, the Downtown Design Review Committee and our city's neighborhood associations as technical support and as a professional planning resource. Our goal is to make a reality the collective community wisdom that went into the creation of Plan Kalamazoo and to continue to improve the quality of life for all stakeholders.

Economic Development

The Economic Development Department implements programs and provides services integral to achieving the goals of the city's Economic Development Strategic Plan. Staff assists in the retention, growth and attraction of business and industry by building relationships with employers, and by anticipating/responding to their needs. Staff's expertise in the use of incentives such as gap financing, tax exemptions and tax credits, land assembly and linkages to workforce development resources is utilized to preserve/enhance tax base and create jobs in the city. The division works with federal, state and local development organizations/agencies to address community reinvestment, job creation, job retention, brownfield redevelopment and riverfront redevelopment. The division provides staffing support to the Brownfield Redevelopment Authority, Economic Development Corporation and Local Development Finance Authority.

Solid Waste

The Public Services Department provides a variety of solid waste collections including fall leaves, brush, monthly bulk trash collection and residential recycling collection. Also provided is the opportunity for residents to dispose of freon-bearing appliances and household hazardous waste. Activities performed also improve the appearance and cleanliness of City streets through street sweeping and clean-up of scattered illegal dumpsites.

Public Works

The Public Services Department provides a variety of Public Works services, including sidewalk replacement, maintenance of the City's urban forest, and maintenance of the City's Central Business District.

Utilities (Wastewater and Water)

The Public Services Department provides an environmentally sound, convenient and continuous wastewater disposal service to the public by adequately transporting and treating the wastewater generated in 17 municipalities throughout the Kalamazoo area. Service is provided at a reasonable cost, making certain that the customers receive highly responsive service, quality potable drinking water and wastewater treatment that meets and exceeds existing standards and provides a safe and clean environment.

Cemeteries

The Public Services Department provides a variety of cemetery services including burials, grave maintenance and restorations, and landscape maintenance within Riverside and Mountain Home Cemetery.

Transportation

The Transportation Department provides the citizens of Kalamazoo County with public transportation services that are dependable, convenient, safe, cost effective, and accessible for everyone.

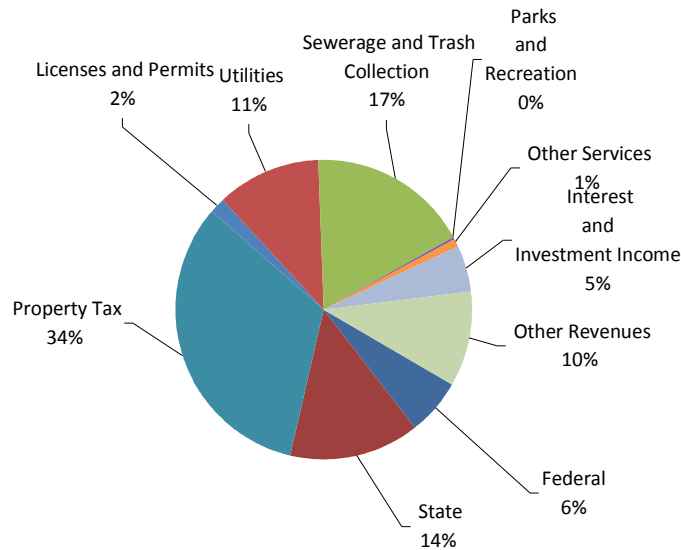
How Taxpayer Money is Spent:
Government Revenues and Expenditures

GOVERNMENT BUDGETS

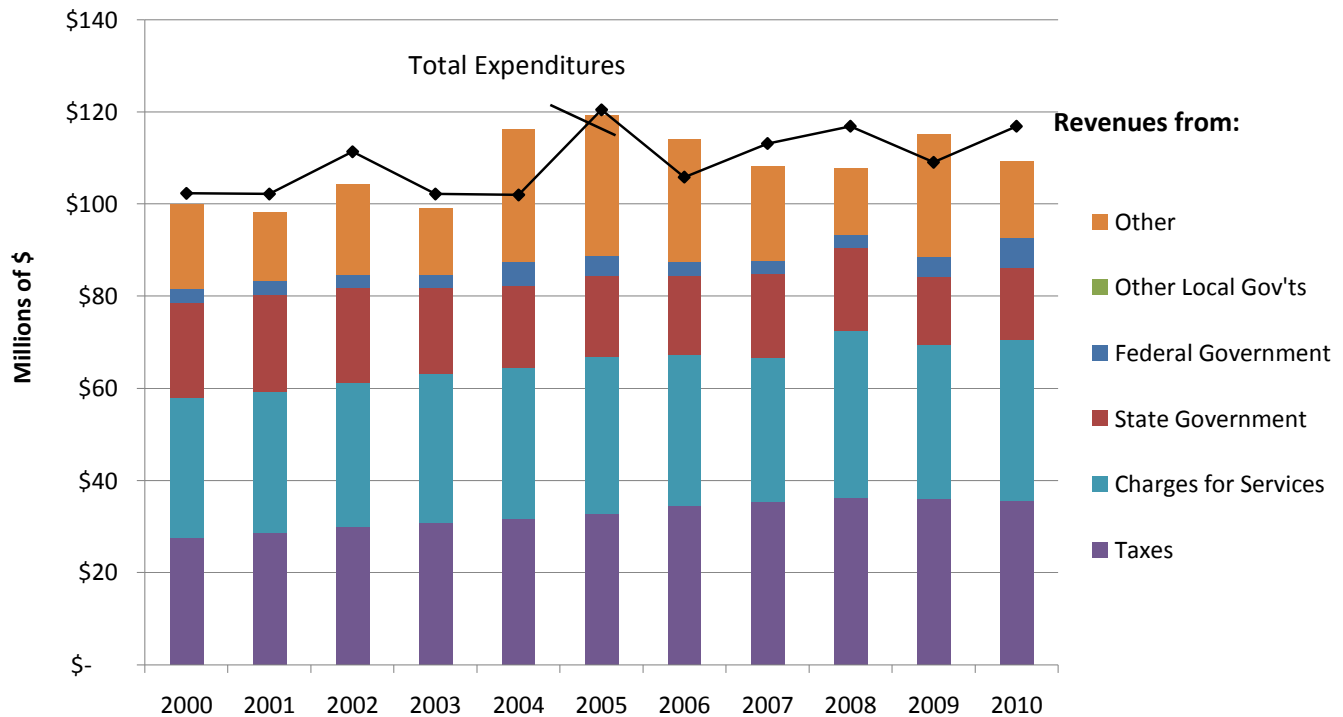
Revenues:

FIGURE 1

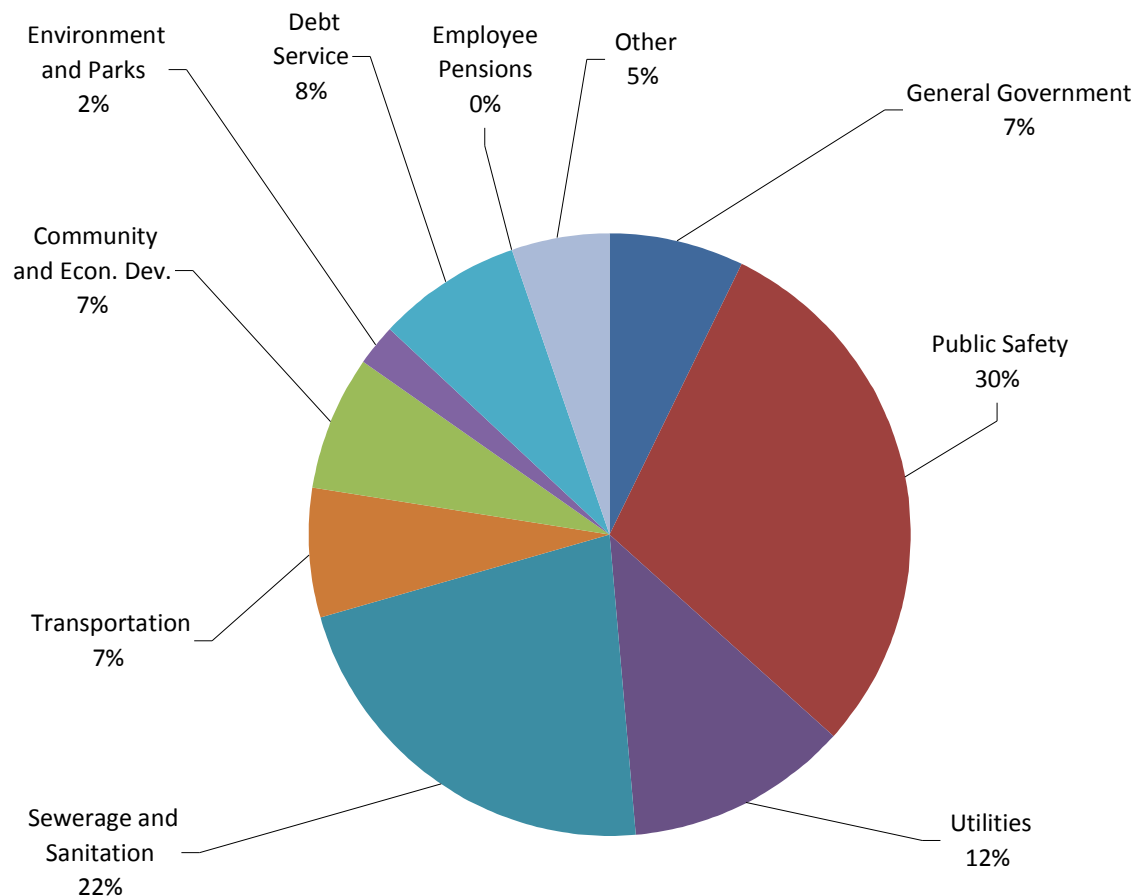
Kalamazoo Revenues, Current Year



The two largest revenue sources, Property Taxes (\$36 million) and Intergovernmental Contributions (State - \$15.6 million and Federal - \$6.6 million) and represent 54% of all estimated resources (see Figure 1). Charges for Services include licenses and permits (\$1.8 million), utilities (\$12.5 million), sewer and solid waste (\$19.1 million). These account for 33% of municipal revenues. The balance of 13% comes from recreation fees, other services, interest and investments and other revenues.

FIGURE 2**Kalamazoo Revenues and Expenditures, 2000 to Current Year**

Expenditures are split between the following areas: General Government (\$8.6 million), Public Safety (\$34.2 million), Utilities –Water and Transit services (\$13.9 million) Sewerage and Sanitation (\$25.7 million), Transportation Infrastructure (\$8.2 million) Community and Economic Development (\$8.4 million), Environment, Parks and Recreation (\$2.5 million), Debt Service (\$9.4 million) and Other Expenditures (\$6.1 million).

Expenditures.:**FIGURE 3****Kalamazoo Expenditures, Current Year**

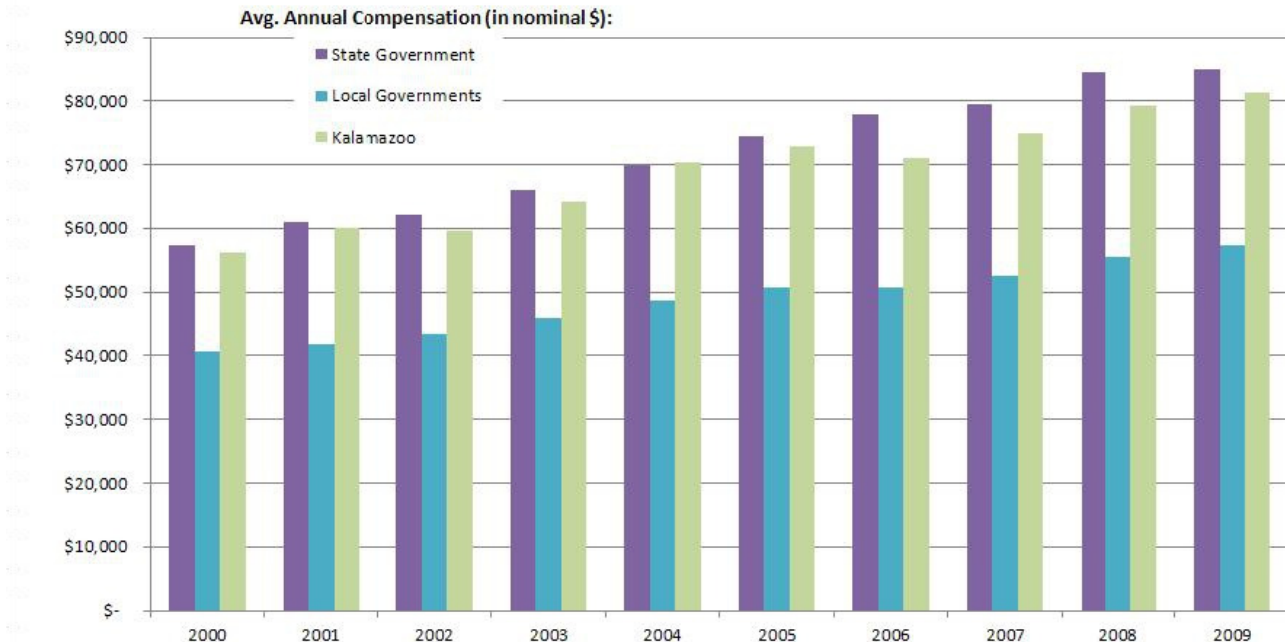
Public Safety (Police and Fire) is the largest segment of municipal expenditures representing 30% of the City's expenditures in FY 2010, following closely by sewerage and sanitation at 22% (including wastewater treatment and solid waste operations), and the water utility at 12%.

NUMBER OF GOVERNMENT EMPLOYEES

Personnel	CURRENT YEAR	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total employees (fire, police, admin):	782	935	950	936	871	872	851	853	848	834	822
Total wages:	\$ 46,978,199	\$ 41,990,921	\$ 45,977,594	\$ 43,258,746	\$ 43,839,349	\$ 45,852,621	\$ 46,663,508	\$ 45,958,892	\$ 46,591,670	\$ 47,404,273	\$ 47,307,137
Total benefits:	\$ 18,466,525	\$ 10,497,728	\$ 11,176,277	\$ 12,536,846	\$ 12,070,566	\$ 15,516,597	\$ 15,314,804	\$ 14,720,659	\$ 16,891,354	\$ 18,682,056	\$ 19,572,480
TOTAL COMPENSATION:	\$ 65,444,724	\$ 52,488,649	\$ 57,153,871	\$ 55,795,592	\$ 55,909,915	\$ 61,369,218	\$ 61,978,312	\$ 60,679,551	\$ 63,483,024	\$ 66,086,329	\$ 66,879,617
AVERAGE COMPENSATION:	\$ 83,689	\$ 56,138	\$ 60,162	\$ 59,611	\$ 64,190	\$ 70,378	\$ 72,830	\$ 71,137	\$ 74,862	\$ 79,240	\$ 81,362

DIFFERENCE IN PUBLIC AND PRIVATE SECTOR COMPENSATION**FIGURE 4****Average Employee Compensation in Michigan**

	Wages	Benefits	Total Compensation	Total Employment	Avg. Compensation
State Government, 2009	\$ 2,763,466,647	\$ 1,634,877,477	\$ 4,398,344,124	51,699	\$ 85,076
Local Governments, 2009	n/a	n/a	\$ 23,374,085,000	407,693	\$ 57,333
Kalamazoo, Current Year	\$ 46,978,199	\$ 18,466,525	\$ 65,444,724	782	\$ 83,689



The average total compensation of the City of Kalamazoo employees over the past 10 years has increased an average of 4% per year; salaries have increased by 1.12%, benefits have increased by 5.75%.

Over the past 6 years, the City has implemented a policy to establish a 20% share of total health care costs for employees through collective bargaining with its 5 employee bargaining units, and also administratively with its non-bargaining employees. Specifically, the City has consolidated employee health care plans from three a la carte offerings to one, and has increased cost-sharing measures such as monthly employee health care contributions, as well as co-pays and deductibles for care visits. Every employee and retiree of the City has been shifted to one plan as of 2010, saving significant administrative and plan-design related costs. This initiative has been an overwhelming success, generating estimated cost savings of over \$15 million for the City from FY 2005 through FY 2011 for providing self-insured employee health care.

Changes in behavior have helped constrain general health care inflation that continuously outstrips our growth in revenues. In the latest round of bargaining, the following changes were made:

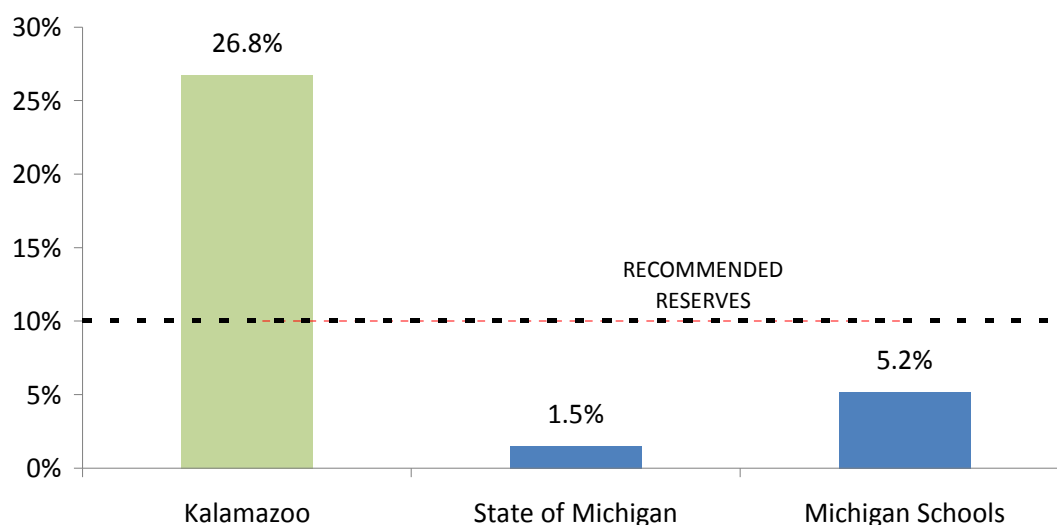
- Retiree Health Care: new hires in KMEA (and the non-bargained for group) will receive a monthly stipend of \$75 to place into a health savings retirement account through MERS. This will result in approximately \$5 – 10 thousand of new annual expenditures over the next five years. This money is pre-tax for the employee and its use for health care costs is also tax-free.
- Pharmacy Initiative: A pharmacy initiative has been agreed to. This pledges the employees to taking steps to replace their use of name-brand drugs with generic drugs that come at much lower prices. The City spends over \$1 million in prescriptions every year, and a full 85% of drugs purchased by our employees are name-brand products.
- Cost-Sharing: existing cost-sharing amounts have been inflated nominally.

Savings realized from FY 2007 – 2009 created an unencumbered balance of \$4.5 million in the City's internal Insurance Fund; savings in FY 2010 are projected at another \$1 million, with projected savings in FY 2011 also estimated at another \$1 million. Of the above savings, those realized in FY 2009 and estimated for FY 2010 and FY 2011 would be due as rebates in FY 2011 to the General Fund, totaling nearly \$1.6 million. The General Fund budget would be improved by roughly \$700 thousand a year beginning in FY 2011 due to the savings projected above.

Kalamazoo's Fiscal Health

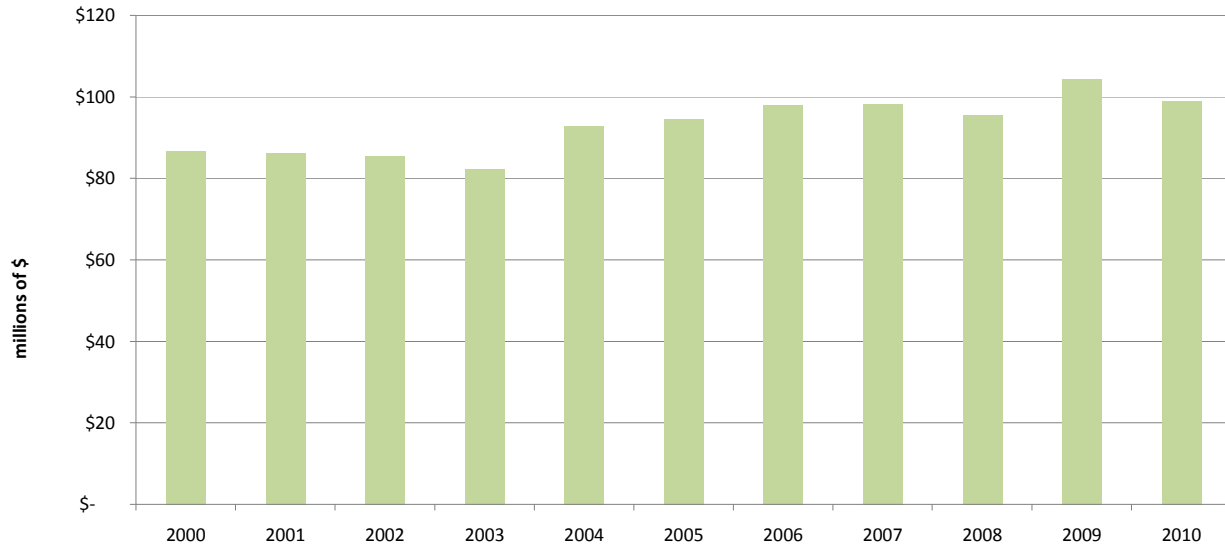
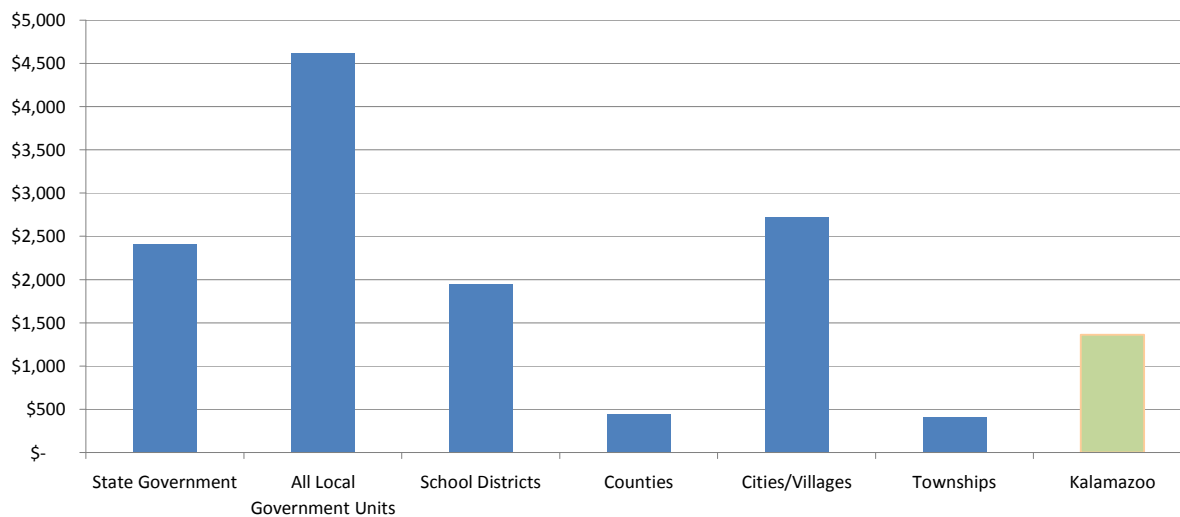
RESERVES AND MAJOR FUND BALANCES

FIGURE 5

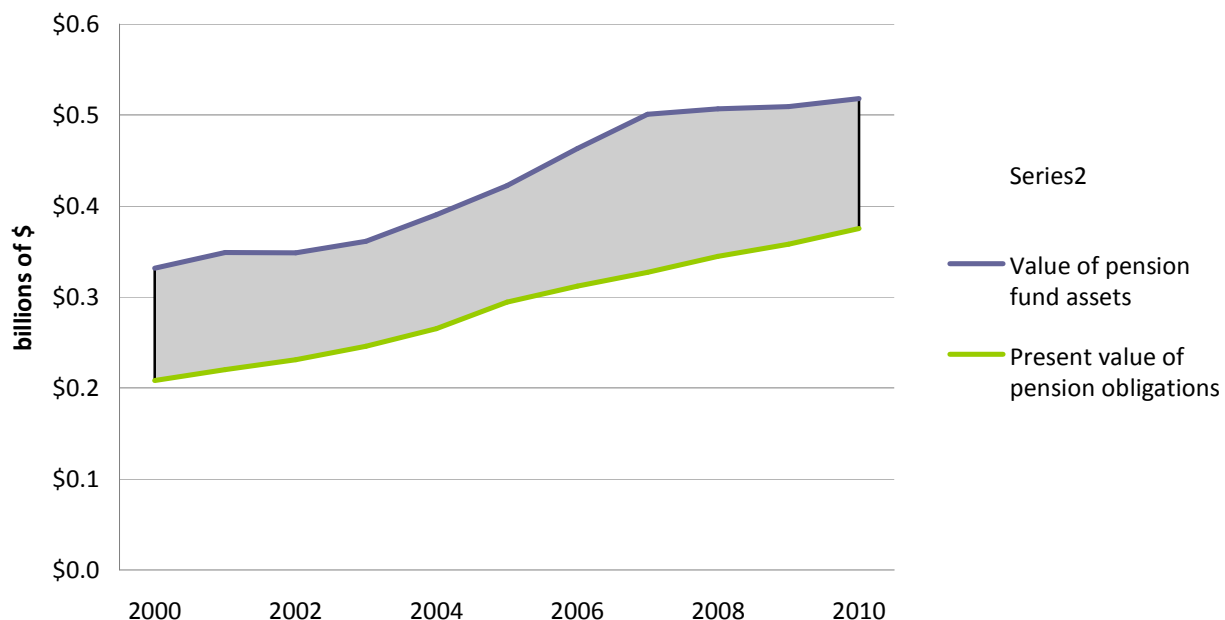


The City of Kalamazoo fund reserves are significantly more than the state of Michigan's reserves, representing three months of expenditures in reserves or 15% of net equity. The vast majority of these reserves are in the City's utility funds and General Fund, including bond proceeds designated for planned capital projects. The City's utility funds (Water and Wastewater) retain a combined fund balance equal to 65% of operating revenues, which is within the normal range for large enterprise fund operations. The State of Michigan Department of Treasury requires that the City's General Fund retain at least a 13% unrestricted Fund Balance, and the City Commission's policy limits General Fund balance at a maximum of 15%.

Based on the recent volatility of property taxes and other revenues, reserves have been scaled to smooth the transition to the "new normal" through permanent structural rebalancing. Roughly 3/4^{ths} of the City's reserves are used for ongoing operations and capital reinvesting in enterprise activities (wastewater, water and transportation).

DEBT LEVELS**FIGURE 6****Kalamazoo Long-Term Debt, 2000-2010****FIGURE 7****Debt Per Capita**

The long term debt used by the City of Kalamazoo is mostly dedicated to infrastructure and equipment (roads, wastewater, water and public spaces), and is paid with existing tax collections and fees for services. Another type of debt known as “Revenue Bonds” are issued for enterprise activities like water, wastewater, and golf courses that generate revenues through user fees, Tax Increment Finance Authorities (such as the Downtown Development Authority) or Special Assessment Districts, which tax individual properties for projects that benefit them directly. The amount owed by Kalamazoo’s citizens is close to half of the state average for cities and villages.

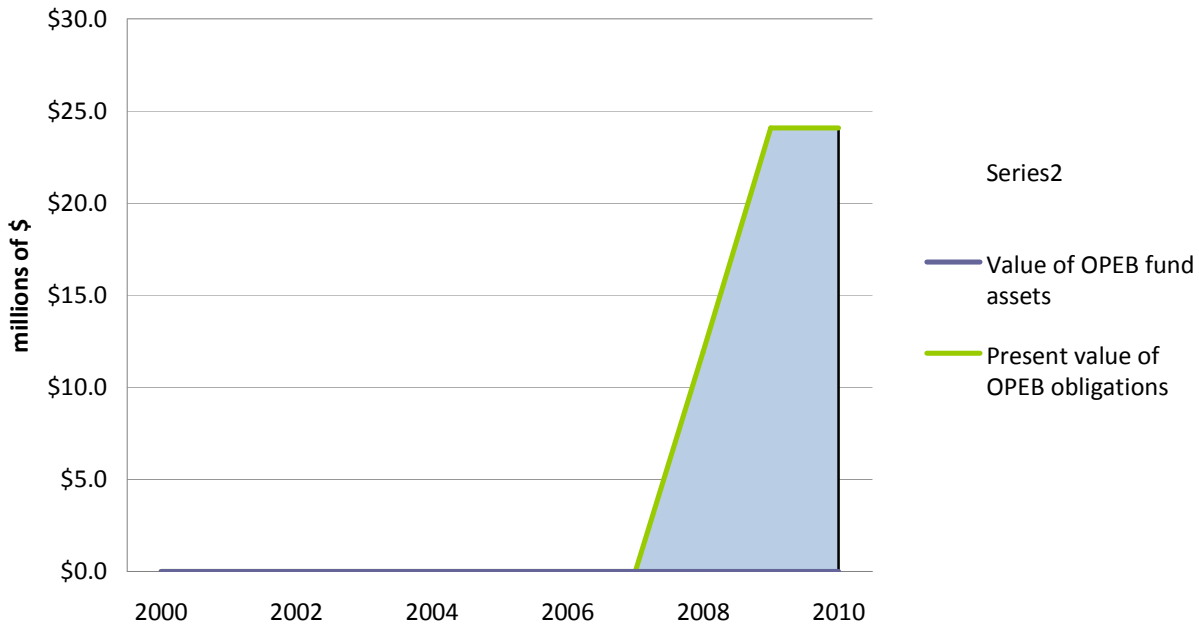
PENSION AND OTHER RETIREE BENEFITS**FIGURE 8****Kalamazoo Pension Fund Status****Percent of Full Pension Funding...**

Last Year	0.0%
Last 5 Years	#DIV/0!

Total Unfunded Pension Liabilities	\$ (142,935)
------------------------------------	--------------

The pension system in the City of Kalamazoo is fully funded as indicated in the graph. The Pension Trust Fund realized it's nadir in March 2009, when the it's assets were valued at \$283 million. A sustained recovery has resulted in a December 31, 2010 balance of \$511 million, as compared to an estimated liability of \$375 million, making the City's pension system one of the top-funded systems in the nation.

The pension fund is managed by the Retirement Investment Committee, a group of prominent investment expert volunteers. The pension system's investments have performed incredibly well since the Committee's inception in 1982, averaging over 12% real rate of return. Since 1997, the city has made no contributions to the retirement investment pool and has been able to control costs by adopting new strategies for retirement benefits offered to new hires and strict limitations on benefit enhancements at the bargaining table with labor groups.

FIGURE 9**Kalamazoo Other Post-Employment Benefit (OPEB) Fund Status****Percent of Full OPEB Funding...**

Last Year	35.9%
Last 5 Years	35.4%

Total Unfunded OPEB Liabilities **\$ 24,075,242**

Over the past 6 years, the City has implemented a policy to establish a 20% share of total health care costs for employees through collective bargaining with its 5 employee bargaining units, and also administratively with its non-bargaining employees. This initiative has been an overwhelming success, generating cost savings of over \$17 million for the City from FY 2005 through FY 2010 for providing self-insured employee health care.

Furthermore, when bargaining new contracts since 2007, the City has made it a goal to provide new hires with defined contribution retiree health care savings accounts, rather than the traditional defined benefit retiree health care. This will have the effect of making future costs more predictable, and converting new hires to a defined contribution plan will make these benefits more affordable for the City in the long run.

In 2008, City staff completed a plan that would have utilized some overfunding from the Pension Trust Fund in order to help pre-fund a retiree health care (re: OPEB) trust fund, in accordance with a provision of federal law. Unfortunately, the severe downturn in the Pension Trust Fund in 2008 rendered any effort to utilize Pension assets unworkable for the foreseeable future.

The City is currently planning to set aside \$400 thousand of General Fund cash reserves in 2010 into an irrevocable "Section 115" trust for Retiree Health Care, to be invested in pension-style investments. This account is being created at this time. The City budgeted \$400 thousand of General Fund cash reserves in 2010, and another \$250 thousand in 2011, to be placed in an irrevocable "Section 115 OPEB" trust for Retiree Health Care, to be invested in pension-style investments. An application for tax-exempt status with the IRS has been filed, and we are awaiting approval.

PUBLIC BUDGET GAP

FIGURE 10

Deficits and Budget Gaps in Kalamazoo, 2001-2010

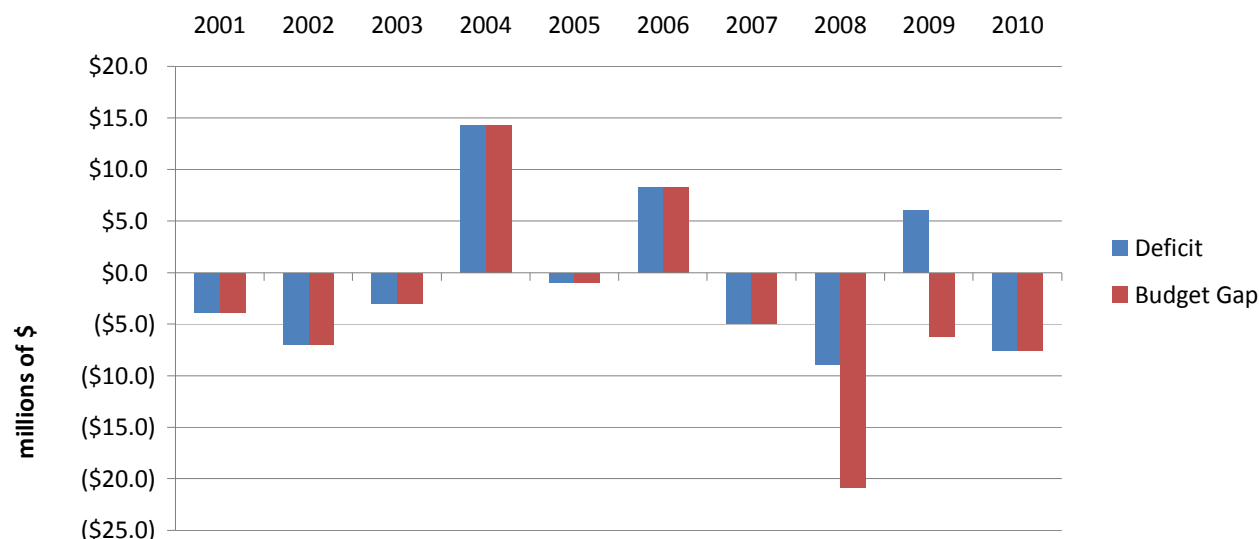
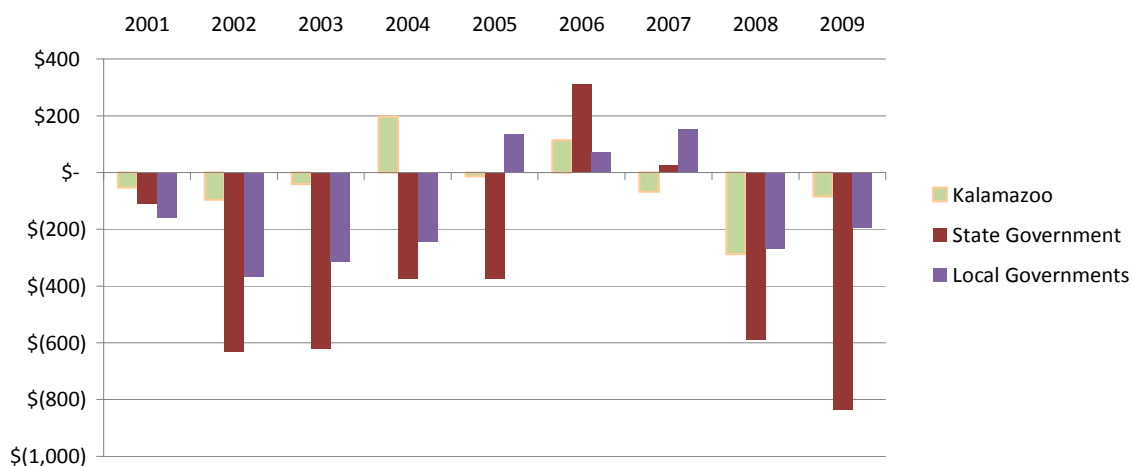


FIGURE 11

Per Capita Budget Gap in Kalamazoo vs. Local & State Government in Michigan, 2001-2009



The deficit figures above represent the difference between current revenues and expenditures. The City has operated in a deficit in 5 of the last 10 years, representing normal inflationary pressures in operating costs, combined with major downward movement in Property Tax Revenue and State Shared Revenues. The “Budget Gap” folds long-term costs such as required future funding amounts for retiree health care, which were included as a cost for the first time in 2008 according to new accounting rules.

The city has maintained its credit rating signifying acceptance in the credit markets of sustainable fiscal responsibility and management through structural adjustments, the use of reserves, cost containment, strategic investment and efficiency improvement in operations and services.

How This Report Was Developed

This report is offered for the purpose of enabling a civic spirit and for building a common understanding between the public, their elected City servants, and the administration. Achieving these objectives will lead to better decision-making and the greater fulfillment of the City's strategic vision.

DATA SOURCES AND NOTES

The City's audited financial statements were the basis for the data included in this report. These statements can be reviewed on the City's web site at the following location:

http://www.kalamazoocity.org/portal/government.php?page_id=116